

November 15, 2018

To: Honorable Mayor and Council Members

From: Charles Town Utility Board

The Charles Town Utility Board received a written request from Councilmember Michael Tolbert on November 7, 2018 as detailed below:

**“I respectfully request an estimate of utility rates for the first/base year after consolidation, and then for the ten-years after that base year, assuming one of more generally accepted models of rate equalization in the State of WV and or models that have been used in the past by Charles Town Utilities. These rate estimates should include additional columns that plainly show any additional rates information based on all the planned projects in the Charles Town Utility’s 2018 Strategic Plan, if those projects start points in that 11-year period. Please show real world rate as an average utility bill in dollars for the CT/Ranson and PSD as well as CT/Ranson/PSD post equalization. Please provide that information by COB November 16, 2018 so that we can have that information in time to”**

Further correspondence from Councilman Tolbert states,

**“I really want the Board to understand how far I am preparing to go if that info is not forthcoming. This is step three of a five step plan and I am dead serious. Any assistance the board can deign to be so kind as to have the same people they employ and hire for legal and accounting services to provide an accounting those thay those same employees and contactors know I’ve been requesting for 1.5 years would be most appreciated.”**

The CTUB has been working diligently with professional consultants over the past 2 years with Council to demonstrate the financial analysis associated with both the acquisition of the City of Ranson Sewer System and the Jefferson County Public Service District. This continues to be a very complicated structure especially due to the varying rate structures.

As consultants and staff have explained to Council on several occasions it is nearly impossible to detail every scenario of utility rates within the first 11 years after consolidation. Beyond year 1 after consolidation there are many factors that will affect any pro forma presented to Council to demonstrate a future rate structure.

Councilman Tolbert’s request is not easily addressed and will require extensive coordination and documentation after acquisition. Any assembling of information in the request is fraught with unknowns and is prefaced with contingent actions by the Mayor and City Council going forward. Therefore, preliminary projections are detrimental for release at this point in time.

### **POLICY DECISIONS**

First and foremost, Council and CTUB should reach agreement on direction for rate equalization based on factual information. Continued work sessions between the CTUB and Council are critical to ensure fulfilling the goals of acquisition, rate equalization, project details, funding options and rate impacts.

## RATES

The current rate structures between CTUB, Ranson and the JCPSD are not apples to apples.

Charles Town's rates are: First 2,000 gallons \$14.07, Next 8,000 gallons \$10.12, Over 10,000 gallons \$9.20

Ranson's rates are: First 2,000 gallons \$14.79, Next 8,000 gallons \$10.64, Over 10,000 gallons \$9.67

JCPSD's rate is \$16.61 per 1,000 gallons

Initial recommendation would be to increase Charles Town's rate to Ranson's rate. The next step will require analysis of JCPSD consumption reports to propose a 3 tier structure or to propose Charles Town and Ranson to a single tier, both with potential rate impact.

## PROJECTS

Potentially, four (4) projects could be constructed within the first 5 years after consolidation:

1. The Route 9 Sewer Infrastructure Project estimated at \$10,000,000.
2. The Flowing Springs Project. The cost of this project depends significantly on 1. above.
3. The Ranson projects estimated at \$2,000,000.
4. The 2021 Renewal and Replacement Project estimated at \$3,394,500.

Engineering has not been performed on alternatives for 1. and 2. Engineering for 3. and 4. has not yet begun, therefore these estimates could vary as much as 20% -30% higher or lower based on final design. Preliminary Engineering reports will be prepared for each of these projects at the onset to more clearly define project scope and project costs at which time Council will be briefed with potential rate impacts and steps moving forward.

Additionally, another factor that is unknown within an 11-year timeframe after consolidation is whether the 2033 date is accurate for expansion of the Charles Town Wastewater Plant. The cost estimate for this expansion is not known. A Design Loan for this expansion could be required before 2033. Growth will dictate when these upgrades may be required and will be monitored through continued and consistent Strategic Plan Updates.

## **WHAT IS KNOWN (POLICY ISSUES ARE IN BOLD)**

1. **Based on FY18 financial information, the Revised Flowing Springs Project could be achieved with no rate impact to JCPSD customers, however, this would limit the flexibility of rate equalization over 10 years.**
2. **Equalization of the Charles Town and Ranson tariffs could occur as early as FY20 (July 1, 2019 to June 30, 2020).**
3. **The Route 9 Sewer Infrastructure Project funded through the City of Charles Town / Charles Town Building Commission and guaranteed by the WV State Development Office will have NO RATE IMPACT to customers.**
4. **The Route 9 Sewer Infrastructure Project funded under WV PSC Rule 5.5 will cost ratepayers \$2,444,263 (See J.C. Kunkle Analysis of Rockwool Extension under Rule 5.5 at \$2,095,030 over 11 years plus 9 remaining years of debt service at \$38,803.68 per year). If spread over all customers, the rates will increase by approximately \$0.45 per 1,000.**
5. Based on the current Ranson Tariff, the \$2 million Ranson Project can be achieved with no rate impact to Ranson customers. This would also limit flexibility in rate equalization.

6. From the 2018 Sewer Strategic Plan, the 2021 Renewal and Replacement Project is estimated at \$3,394,500. As a result of older bond issues being paid in full, available funds of approximately \$167,000 per year will be available in 2022, without a customer rate increase. Based on this debt service payment and current market rates, a bank qualified insured utility revenue bond could be issued in the amount of \$2,750,000 for the project. The balance needed of \$644,500 will likely grow to \$1,000,000 by 2021 and could require a minimal rate increase.
7. Upon completion of the JCPSD Asset Acquisition, the \$230,000 Preliminary Engineering for the Renewal & Replacement (included in the \$3,394,500) can begin using an internal borrowing.

#### **WHAT IS NOT KNOWN (POLICY ISSUES ARE IN BOLD)**

1. **The construction cost of a single line and necessary appurtenances solely dedicated to ROCKWOOL and connecting to the Flowing Springs Pump Station.**
2. **The rate impact to reimburse ROCKWOOL under WV PSC Rule 5.5, should ROCKWOOL construct a single line solely dedicated to their use.**
3. **The Revised Flowing Springs project re-evaluation to determine additional project costs in the Northern Region, should ROCKWOOL construct a sole source line.**
4. **The rate impact to tier the JCPSD single rate. This must be accomplished before equalization can occur and will require an evaluation of JCPSD customer consumption in 3 tiers (OR Charles Town and Ranson to a single tier) to determine the rate impact. This process can begin once the JCPSD O&M, G&A and debt service cost reductions are more precise.**
5. **Currently, equalization from the JCPSD single tier to a multi-tier is discriminatory to the JCPSD residential customers. Equalizing to Ranson's tariff, the decrease for a JCPSD residential customer would only be approximately 22%, while the decrease to commercial customers would be 35%. See attached J.C. Kunkle Analysis of Jefferson County PSD Tariff Differential, Jefferson County Public Service District Component, % Decrease to Ranson Rates.**
6. The JCPSD O&M, G&A and debt service cost reductions will become more precisely identified at the fiscal year ending June 30, 2020.
7. The Renewal and Replacement Project Preliminary Engineering Report will further define the estimate in the SSP and determine what portion, if any, of the current Capacity Improvement Fees (\$779,403.17) can be assigned to the project.
8. Design of the CTWWTP Expansion to 2.25 MGD project to increase volumetric capacity at Charles Town from 1.75 mgd to 2.25 mgd is forecast to begin in 2033, however, engineering may be required earlier and will be adjusted in future SSP updates.

In conclusion, John Kunkle has prepared the attached Analysis of Rate Equalization Revenue Gap Based on Ranson Benchmark Rates. Because of undecided policy direction from the Mayor and City Council, this analysis is purely for illustrative purposes only and should not be construed as the final model to equalize rates over the span of up to 10 years. Also attached is an updated Debt Service Coverage Calculation Based on Actual Cash Flows based on actuals at fiscal year ended June 30, 2018.